

ABSTRACT

Methods for lease financing of tenant improvements. Improvements to a lease space are leased from a special purpose entity to a tenant under an improvements lease distinct from the space lease. The special purpose entity may be a legal entity owned under tax accounting rules by a landlord of the space. Financial statements of the special purpose entity may be consolidated with financial statements of the landlord. The special purpose entity may be capitalized by: (a) an equity investment by the landlord of at least three percent of the value of the tenant improvements and (b) debt issued by the special purpose entity of at least about eighty percent of the value of the tenant improvements, the debt being non-recourse against the special purpose entity, the landlord and the improvements and being secured by an absolute obligation of the tenant. The special purpose entity owns the improvements lease. Development of the tenant improvements may be financed by the special purpose entity. Rent payments under the improvements lease may have a present value at least equal to a value of the improvements at a time of commencement of the improvements lease. The improvements lease may be structured together with the space lease to support an accounting conclusion that the space lease and improvements lease are to be considered together as a single lease and classified as an operating lease. Rent payments under the improvements lease may be fully tax deductible to the tenant.